CHAPTER - VII

FINDINGS, SUGGESTIONS AND CONCLUSION
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Importance of capital structure is obvious in a developing country like India where financial resources are scarce. If proper capital structure models are developed, most of the enterprises can reduce their capital employed and improve their return on investment. Financial experts differ in their views on the composition of funds in capital structure. Some believe that the capital structure tantamount to the financial structure and hence, they say that the structure includes funds mobilised from both long term and short-term sources. Hence a study on capital structure analysis is carried out in TNPL and SPBL.

FINDINGS

The analysis parts broadly classified into two. The first part deals with the balance sheet aspects and financial performance related aspects of the study units and the second part focus on the capital structure and cost of capital aspects.

Based on the study done on chapters four, five and six the following findings have been drawn.
TNPL:

Very high fluctuations are seen in the share capital of TNPL during the study period. Significant changes are also noticed in this aspect. A consistent increase is noticed in reserves and surpluses except in the year 2001-02. Increase is around 227 per cent in reserves and surpluses. If the same trend continues, the share capital will be Rs.5907.85 lakhs and reserves and surpluses will be Rs.52029.61 lakhs during the year 2009-10. There is a negative correlation between share capital and reserves and surplus during the study period.

Significant decline is noticed in secured and unsecured loans during the study period. Decline in secured loans is around 33 per cent and that of unsecured loans is 81 per cent. The variation is higher in the case of unsecured loans than that of secured loans. There is positive relationship between secured and unsecured loans during the study period. If the same trend continues, the secured loans in 2009-10 will be Rs.16090.96 lakhs but unsecured loans will be negative or nil.

The variation is higher in the case of provisions than that of current liabilities in TNPL. As per correlation analysis there is a low positive correlation between current liabilities and provisions in the study unit. The increase in provisions is lesser than that of increase in current liabilities.
The correlation between fixed assets and investments is 0.43 and this shows that there is a positive correlation between fixed assets and investments. Trend reveals that the fixed assets will be Rs.82488.59 lakhs in 2009-10 and that of investments will be Rs.659.05 lakhs. There are fluctuations in fixed assets and change in investment is very meagre except in the year 2003-04.

High fluctuations are seen in inventories and sundry debtors during the study period. The standard deviation and coefficient of variation is higher in the case of sundry debtors than that of inventories. There are better inventory management practices in the organisation. Managing sundry debtors requires some special attention in TNPL. There is a positive correlation between inventories and sundry debtors in TNPL during the study period. The inventories in 2009-10 will be Rs.10480.03 lakhs and Sundry debtors will be Rs.11611.70 lakhs if the same trend continues in TNPL.

Trend reveals that, if the same cash management practice continues the cash and bank balance in 2009-10 will be Rs.1696.69 lakhs and loans and advances in 2009-10 will be Rs.6625.85 lakhs. There is a negative correlation between cash and bank balance and the loans and advances in TNPL during the study period.

For the purpose of understanding the relationship between the total assets and share capital, reserves and surplus, fixed assets and
Investigations multiple regression method of linear trend applied and found that, except the $X_4$ variable (investment) the rest variables are having relationship with total assets.

Except inventories all the variables such as sundry debtors, cash / bank balance and loans and advances are having relationship with total assets.

In TNPL, total assets having relationship with variables such as unsecured loans, current liabilities and provisions except secured loans during the study period.

While analysing common size balance sheet of liabilities aspects it has been found that, the total liabilities consisted of 7.00 per cent of share capital; 32.27 per cent of reserves and surplus; 7.14 per cent of unsecured loans; 34.29 per cent of secured loans; 11.17 per cent of current liabilities; 2.51 per cent of provisions and 4.97 per cent of deferred tax liability. The major components are reserves and surpluses and secured loans in TNPL.

On the assets variable of TNPL the total assets comprise of 70.42 per cent of fixed assets; 0.17 per cent of investments; 10.11 per cent of inventories; 10.86 per cent of sundry debtors; 2.15 per cent of cash and bank balance; 0.04 per cent of other current assets; 6.24 per cent of loans and advances and 0.01 per cent of miscellaneous expenses not written off.
The major components in liabilities are reserves and surpluses and secured loans and in assets are fixed assets and sundry debtors. It can be said that paper industry is a capital intensive industry in general.

The trend reveals that there are high changes and fluctuations in return on equity during the study period. There is an overall decline in this ratio during the study period in TNPL.

Statistical analysis shows that in TNPL the net worth in 2009-10 will be Rs.57937.45 lakhs and its rate of return on equity may decline if the same trend continues. There is significant increase and some fluctuation in this ratio during the study period. The rate of profit may increase in future if the same pricing policies continue in TNPL.

The EBIT/interest charges ratio ranges between 1.58 and 9.12 during the study period. Fluctuations are noticed in this ratio during the study period. This shows that the coefficient of variation is higher in the case of interest charges than that of EBIT. Trend shows that in 2009-10, the EBIT will be Rs. 19247.98 lakhs and the interest charges will be Rs.2334.23 lakhs.

There are oscillations in EPS during the study period. It ranges between Rs.0.51 and Rs.11.99 during the study period. Statistical analysis shows that, if the same trend continues the earnings per share will be Rs.14.00 in TNPL and other things will move or change uniformly.
Fluctuations are noticed in return on capital employed during the study period. It ranges between Rs.0.01 and 0.26 during the study period. A consistent decline is also noticed in it during the study period.

Fluctuations are noticed in the book value per share, but there is a significant increase in the ratio and the increase is 195.78 per cent in the study period.

Slight fluctuations are noticed in liquidity ratio during the study period. The ratio has never gone down below one during the study period.

Increase is noticed in this stock turnover ratio during the study period. Consistency is also noticed in this ratio which shows the better inventory management policy is followed in the organisation.

In TNPL the ratio of fixed assets to turnover in 1994-95 is 0.36 and it has increased to 0.71 in the year 1999-00. It has again increased to 0.76 in the year 2003-04. However, the ratio ranges between 0.36 and 0.86 during the study period.

The loan component of TNPL has declined and the rate of interest has slightly declined. Earnings per share have a declining trend and the tax rate also has declined from 45 per cent to 35 per cent. The market value of the share has significant increase. There is a significant increase in Earnings Before Interest and Tax. There is an increase in dividend percentage in TNPL during the study period.
SPBL

Fluctuations are seen in the quantum of reserves and surplus. Reserves and surplus will be Rs.8233.03 lakhs in 2009-10 if the same trend continues in SPBL. There is a consistent increase in the reserves and surplus in SPBL.

Significant increase is noticed in secured loans and higher fluctuations and decline is noticed in unsecured loans. There is an increase of 16 times of secured loans and a decline of 36.71 per cent in the study period.

There is a negative correlation between secured and unsecured loans during the study period. The quantum of secured loans in 2009-10 will be Rs.26697.91 lakhs and that of unsecured loans will be negative or Nil.

There is a consistent increase in secured loan and decline in unsecured loans. As per trend analysis, in future the secured loans will increase and unsecured loans will become nil. There is also a negative correlation between secured and unsecured loans.

There is a significant increase in current liabilities and slight decline in provisions. The coefficient of variation is higher in the case of current liabilities than provisions. There is a negative correlation between current liabilities and provisions during the study period. In SPBL the increase in current liabilities is higher and that of decline in provisions is
less. The coefficient of variation is also higher in the case of current liabilities. There is a negative correlation between current liabilities and provisions during the study period. Significant increase in current liabilities can be expected in the year 2009-10 in the case of current liabilities and decline can be expected in the case of provisions.

In the case of investment and fixed assets there is significant increase has been found. There is positive correlation between fixed assets and investments during the study period. If the same trend continues, in 2009-10, the fixed assets will be Rs.33055.60 lakhs and investments will be Rs.1675.41 lakhs.

In SPBL, the increase in fixed assets is higher and consistent. The increase is around 5 times in the study period. There is a positive correlation between fixed assets and investments during the study period.

There is significant increase in sundry debtors and in inventories. The increase in inventories is around 667 per cent and in sundry debtors it is 269 per cent. There is a high positive correlation between inventories and sundry debtors during the study period.

There is a significant increase in cash/bank balance and in loans and advances. There is a positive correlation between cash/bank balance and loans and advances in the study unit. If the same trend continues, the cash and bank balance in 2009-10 will be Rs.6615.82 lakhs and loans and advances will be Rs.3272.82 lakhs.
The firm has used retained earnings or other funds for purchasing the fixed assets. The share capital base is not increased during the study period.

For the purpose of understanding the relationship between total assets and share capital, reserves and surplus, fixed assets and investments multiple regression method on linear trend applied and found that, except the $X_2$ variable (reserves and surplus) the rest variables are having relationship with total assets.

Except inventories all the variables such as sundry debtors, cash / bank balance and loans and advances are having relationship with total assets.

In SPBL, total assets having relationship with variables such as secured loans, unsecured loans and current liabilities except provisions during the study period.

While analysing the common size balance sheet of liabilities aspects, it has been found that, the liabilities consisted of 4.80 per cent of share capital; 23.13 per cent of reserves and surpluses; 4.21 per cent of deferred payments; 37.33 per cent of secured loans; 7.26 per cent of unsecured loans; 22.57 per cent of current liabilities and 0.85 per cent of provisions.

On the assets aspects of SPBL, total assets consisted of 58.60 per cent of fixed assets; 4.97 per cent of investments; 8.93 per cent of
inventories; 12.28 per cent of sundry debtors; 8.79 per cent of cash and bank balance and 8.43 per cent of loans and advances. It is also found that the major portion of liabilities is secured loans and major portion of assets is fixed assets, which means that the industry is capital oriented one.

Significant fluctuations are noticed in the return on equity ratio during the study period. Trend shows that it has declined from the year 1996-97 to 2000-01 but has increased significantly in 2002-03. If the same trend continues in SPBL the net worth will be Rs.9358.04 in the year 2009-10 and the return on equity will come down.

There is an overall decline in the return on investment during the study period. The ratio ranges between 0.09 and 0.32 during the study period and if the same trend continues in SPBL, the total assets in 2009-10 will be Rs.58063.71 lakhs and the rate of profit may come down in future if the same pricing policies continue in SPBL.

An overall decline has been found in the EBIT/ Interest charges ratio during the study period. The ratio has declined as the interest charge has declined in the firm during the study period and EBIT has increased considerably in the firm. Trend shows that in 2009-10, EBIT will be Rs.7377.13 lakhs and interest charges will be Rs.3185.46 lakhs in 2009-10.

There are high fluctuations in EPS during the study period. It ranges between Rs.2.70 and Rs. 28.02 during the study period and if the
same trend continues in SPBL the earnings per share may increase up to Rs.19.54

Fluctuations are seen in the return on capital employed during the study period, which ranges between 0.13 and 0.70 and if the same trend continues in SPBL, the return on capital employed will be 0.60 in the year 2009-10.

Fluctuations are noticed in the book value per share. However significant increase is noticed in book value per share in SPBL during the study period. The increase in value is around 134.16 per cent during the study period. The fluctuations in this ratio ranges between 1.99 and 0.86. Consistency is also noticed in this ratio, which shows that there is a better liquidity management in the firm.

High fluctuations are noticed in the stock turnover ratio during the study period. It ranges between 27.68 and 6.19, which shows that the stock level is highly fluctuating.

There is an overall decline in the fixed assets turnover ratio which has come down to the extent of 41.14 per cent during the study period and if the same trend continues, fixed assets will be Rs.10981.06 lakhs in 2009-10, the ratio of fixed assets to sales will also fluctuate in SPBL. The EPS has very high fluctuations. The tax rate has declined. The market price per share has significantly increased in the second half of the study period. Earnings before interest and tax have significant increase.
However, the dividend rate has fluctuations and dividend rate has come down from 2.10 per cent to 1.80 per cent.

COMPARISON

The net worth of TNPL is Rs.44923.55 lakhs in 2003-04. There is significant increase in net worth in both units. Trend analysis reveals that the increase in net worth of SPBL is 134.16 per cent and in TNPL is 109.79 per cent. The increase in net worth is higher in SPBL than in TNPL during the study period.

There is a significant increase in debt with fluctuations in SPBL, but in the case of TNPL, there is a significant and consistent decline in debt during the study period. The standard deviation and coefficient of variation of debt-equity ratio is higher in SPBL than in TNPL. Trend analysis also predicts that debt component may even go negative in TNPL but it is not so in SPBL.

Comparative analysis of capital gearing ratio shows that standard deviation and coefficient of variation of capital gearing ratio is higher in the case of SPBL than that of TNPL.

The return on investment is higher in SPBL than in TNPL. This shows that the steps taken by TNPL are more consistent in this aspect than the steps taken by SPBL. However it is to be noted that, there will be a higher return on investment in SPBL in future but it may not be so in
the case of TNPL. Some corrective measures are to be taken to change this trend in TNPL.

It has been found that, the standard deviation of net profit to sales ratio is higher in the case of TNPL than SPBL. However, coefficient of variation is higher in SPBL. This shows that the consistency in this ratio is higher in TNPL than in SPBL. Further, as per trend prediction, SPBL has to take some steps to correct the significant changes that may occur in future.

The standard deviation and coefficient of variation of stock turnover ratio is higher in SPBL than in TNPL. This shows that, this ratio is consistent in TNPL than in SPBL. Further trend analysis shows that, if the same trend continues there may be higher changes in this ratio in SPBL.

The standard deviation and coefficient of variation of liquidity / quick ratio is higher in SPBL than in TNPL. This shows that the measures taken by TNPL to maintain this ratio are highly consistent than in SPBL. Further, as per trend predictions the quick ratio may change in TNPL than in SPBL at a higher rate.

The standard deviation and coefficient of variation of fixed assets turnover ratio is higher in SPBL than in TNPL. Mean ratio is also higher in SPBL. This shows that the fixed assets are more profitably employed in SPBL than in TNPL. But trend prediction shows that the ratio may
significantly increase in TNPL than in SPBL in the year 2009-10. To correct this change, SPBL has to modify certain procedures in employing fixed assets in the organisation.

The EBIT/Interest charges ratio is higher in TNPL than in SPBL. This shows that the interest charges are higher in or EBIT are lesser in SPBL than in TNPL. Variations are also higher in the case of TNPL. Trend shows that this ratio will significantly increase in TNPL during the year 2009-10.

The mean, the standard deviation and the coefficient of variation of return on investment ratio is higher in SPBL than in TNPL. This shows that efficiency in earning is slightly higher in SPBL than in TNPL. But the variations are higher in the case of SPBL. However if the same trend continues TNPL will be better placed than SPBL in the year 2009-10. SPBL has to take some corrective measures to modify this ratio.

The earnings per share in SPBL is Rs.11.80 and that of TNPL is Rs.6.31 which shows that the earnings per share are higher in SPBL.

The return on capital employed is higher in SPBL than in TNPL. However, coefficient of variation is higher in TNPL than in SPBL. If the same trend continues there may be a significant decline in this ratio in TNPL.

The book value of share of SPBL is Rs.58.23 and that of TNPL is Rs.56.30 during the study period. But the trend predictions shows that the
book value of share of SPBL will be Rs.83.18 and that of TNPL will be Rs.93.81 in the year 2009-10.

The earnings per share is higher in SPBL than that of TNPL. There are significant increases in market price per share in both firms. Significant changes are noticed in the dividend rate of SPBL than TNPL.

The mean weighted average cost of capital during the study period in TNPL is 0.1159; the standard deviation is 0.0724 and the coefficient of variation is 62.46 per cent. It has found that there is very high fluctuation in weighted average cost of capital in TNPL. The coefficient of variation is higher in TNPL than in SPBL.

The mean value of SPBL during the study period is Rs.10828.40 lakhs; the standard deviation is Rs.5372.40 lakhs and coefficient of variation is 49.61 per cent. The mean value of TNPL during the study period is Rs.129042.90 lakhs; the standard deviation is Rs.59935.95 lakhs and coefficient of variation is 46.45 per cent. This shows that coefficient of variation in the value of the firm is higher in SPBL than in TNPL.

Weighted average cost of capital in SPBL is least in 1999-00 and this may be due to lesser cost of debt in that year and due to prevailing lesser rate of interest. Weighted average cost of capital in SPBL is maximum in 1995-96 and this may be due to higher cost of equity and reserves during that year.
Weighted average cost of capital is least in TNPL during 1994-95 and this is due to lesser cost of debt during the year; Weighted average cost of capital in TNPL is highest in 1995-96 is due to higher cost of equity during that year.

Weighted average cost of capital in SPBL is maximum in 1995-96 and this may be due to higher cost of equity and reserves during that year. In TNPL its highest is in 1995-96 due to higher cost of equity during that year.

The fluctuations in the value of the firm are higher in SPBL due to higher fluctuations in EBIT and cost of capital. A steady increase in the value of SPBL is noticed except in 2001-02. The increase in value of TNPL is also significant but there are very high fluctuations.

As per the ‘t’ test analysis the following hypotheses are having significant difference between SPBL and TNPL during the period.

Fixed assets turnover ratio

Return on capital employed ratio

The remaining hypotheses,

Debt equity ratio

Capital gearing ratio

Net profit to sales ratio

Return on investment

Time interest earned ratio
Earnings power ratio

Earnings per share and

Book value per share do not differ significantly between SPBL and TNPL during the study period.

As per the discriminant function analysis, it can be seen that the variable EPS is the ratio which maximum discriminates between SPBL and TNPL (14.75%) which indicating that the financial performance of these two companies are discriminated maximum by EPS. Similarly, the ratio return on investment ($R^2\%=14.21$) is comes next in distinguishing the financial performance of SPBL and TNPL, followed by ROE, D-E ratio and Capital Gearing Ratio. EBIT/I discriminates least between SPBL and TNPL.

SUGGESTIONS

Based on the analysis and findings some suggestions are given for the betterment of capital structure of both the firms:

TNPL

1. Higher fluctuations in share capital are noticed during the study period and this may not be a consistent practice for the capital oriented paper industrial unit. Hence, steps may be taken to have consistency in equity share capital at least for a fixed period of time.
2. Significant increase in reserves and surplus are expected in TNPL. This may lead to over capitalisation to certain extent. The firm may take steps to modify the retention ratio to some extent. This will also increase the return on capital employed to some extent.

3. Fluctuations in capital gearing ratio are noticed in TNPL. However, the ratio is between 0.23 and 0.30 during the last four years of study. The firm has to maintain a fixed or at least semi-permanent gearing so that these higher fluctuations may be avoided.

4. Return on Investments has declined in the middle of the study period but has slightly increased in the end. The firm has to adopt a fixed or at least a semi-fixed policy for the return on investment aspects.

5. Increase in stock turnover ratio is seen in TNPL. This shows that, there is significant increase in sales as well as reduced rate of increase in stock level. Inventory management policies are better in TNPL.

6. Liquidity Ratio in TNPL is less than 1.5 in 5 out of 10 years. The firm may try to maintain the ratio at 1.0 or at around 1.5 level for smooth functioning of business activities.

7. Increase in fixed assets turnover ratio shows the better employment of fixed assets in the organisation. The firm may try to increase the productivity by slightly modifying the existing better policies into best policies.
8. There is a significant increase in the EBIT/Interest charges in TNPL. The rate of increase in EBIT is more than that of the rate of increase in interest charges. Control in interest charges may yield higher profits to the organisation.

9. There are fluctuations in earning power ratio. The firm may take steps to stabilise this ratio so that external forces may not interfere in this ratio.

10. There is a significant increase in earnings per share in TNPL and the firm may continue to follow its prudent earning policies for better profitability.

11. Decline in return on capital employed in TNPL is to be taken care. This may be due to competition or other factors. The firm has to take steps to maintain a steady return on capital employed in future.

12. There is a significant increase in book value of shares in TNPL and this may be the probable reason for the decline in return on capital employed.

13. The firm may take steps to prevent over capitalisation aspects if any to reduce the declining return on capital employed.
SPBL

1. There is a consistent increase in the equity fund in SPBL and it is admirable. But the increase in debt component is higher compared to TNPL. Hence, considering the environmental factors, the firm has to fix the debt ratio to the acceptable levels as per norms.

2. There is significant decline in capital gearing ratio and steps are to be taken to have a semi-variable capital gearing ratio as per environmental needs.

3. Higher fluctuations in return on investments in SPBL shows that the mix of capital and reserves and surplus to be corrected so that, there may be a higher and consistent return in future years.

4. Decline in stock turnover ratio shows that there is efficient management of inventories in the firm. However, steps may be taken to minimise the higher fluctuations in this ratio.

5. There is some decline in fixed assets turnover ratio during the study period. But now and then slight increase is noticed. Decline in this ratio shows the efficiency of the firm in employing capital in a better manner. Hence steps are to be taken to employ fixed assets in a more profitable manner.

6. EBIT/Interest charges in SPBL fluctuate and this is due to changes in the interest charges. Steps may be taken to minimise interest payments so that the ratio increases substantially.
7. Decline in earning power ratio as per trend analysis is of great concern for the firm. Steps are to be taken to employ total assets in a more profitable manner so that the ratio does not decline in future years.

8. Increase in earnings per share in SPBL is admirable; but there is high inconsistency in this regard. Hence steps may be taken to earn consistent income without more fluctuations.

9. Fluctuations in return on capital employed show that SPBL requires consistent policies in employing capital including retaining profits in future years.

10. There is consistent increase in book value per share and this maybe attributed to the portion of retained earnings in the firm. It is to be noted that higher retained earnings in the present 'lower interest rate regime' may be of lesser importance to some extent.

11. Decline in dividend rate is not a sign of better financial management practice to some extent. The firm may take steps to have an impressive dividend policy to the shareholders to keep its market goodwill intact.
GENERAL SUGGESTIONS

1. Paper industry is a developing industry but its future may not be so bright as it has higher competition from e-journals and e-market products. Hence, steps are to be taken to diversify the products immediately.

2. The industry cannot expect quantitative increase in sales in future as many users are giving preference to electronic media and other electronic writing pads for day-to-day activities. Hence, the firms may have higher profitability only if they go in for modernisation in a diversified field.

3. The overall interest rate has come down at present. The firms can utilise this opportunity to discharge high-rate interest securities and change over to low-rate interest securities. This may minimise the interest charge in the firms.

4. In this competitive globalised economy, the firms have to maintain consistent capital gearing ratio; else they may go out of their control in the long run.

5. Both firms seem to follow the traditional capital structure theories. However, TNPL seems to have changed its structural policies to a greater extent than SPBL in general. Comparing the profitability of a public sector firm and a private sector firm may not be proper in general. But both are engaged in paper industry and are managed by
the owners for the purpose of growth and development. Hence comparing the capital structure and performance of the firms may not be improper at this stage.

CONCLUSION

A study of capital structure is very much needed in the present competitive globalised economic environment. Proper analysis of capital structure and financial performance helps the firms to increase their earning capacity, change the retained earnings process and modify various turnover ratios. This study is carried out for analysing structural and financial performance of TNPL and SPBL, which are engaged in paper industry. Good consistency and stability are noticed in the functioning of these two study units and if trade cycles are handled well, management of these firms will grow to the highest levels within a very short span of time. Further, an indepth analysis and hypotheses results of the study also indicate that there is no significant difference in capital structure aspects between SPBL and TNPL during the study period, which shows that both the firms are identical in terms of capital structure and financial performance aspects in general. These firms are in the developing stage and may tackle competition and global challenges without much strain in the future, if the present management policies are reviewed.